

TEACHERS' RETIREMENT BOARD
BUDGETS AND AUDITS COMMITTEE

SUBJECT: 2002/2003 Annual Audit Work Plan

ITEM NUMBER: 4

ATTACHMENTS: 1

ACTION: X

DATE OF MEETING: July 11, 2002

INFORMATION:

PRESENTER: Way Lee

In accordance with the Standards for the Professional Practice of Internal Auditing, and as part of the responsibilities of the Internal Audit Office, we are requesting your approval of our Annual Audit Plan for Fiscal Year 2002/2003 (plan), which is included as Attachment 1. The plan presents proposed internal audits, school district audits, and other special projects to be completed during Fiscal Year (FY) 2002/2003. The plan also includes a report of audits completed during FY 2001-2002.

PLAN SUMMARY

Internal Audits:

The Internal Audits staff focused on performing the State Administrative Manual 20000 Evaluation of Accounting and Administrative Controls (SAM 20000). The SAM 20000 audit encompassed 16 separate internal control reviews of auditable activities within CalSTRS' Administration and Information and Financial Systems (I&FS) Branches. Staff also completed three Investments Branch audits that were in progress at the beginning of the fiscal year. Additionally, staff completed the fieldwork on an extensive audit of CalSTRS' procurement and contracting activities that we identified during the SAM 20000 audit as being requested by Board resolution in 1993. As in prior years, staff worked on other projects including the annual financial audit coordination, quarterly audit follow-ups, technical assistance, and other special projects, including the automation of audit workpaper documentation.

Staff were not able to meet the goals set within our prior year plan. We did not fill one vacant audit position as soon as planned and we shared another internal auditor with the School District audit team. In addition, we under-estimated the FY 2001-2002 budget hours needed to complete two of the Investments Branch audits. Also, as indicated above, staff worked on additional projects that were not included within our prior year plan. Unfortunately, we are again facing a vacancy for FY 2002-2003 due to our EDP auditor transferring to another State agency in early July 2002.

During the upcoming fiscal year, we plan to focus on risk assessment. With the new START system fully implemented, we can perform some post implementation procedures, review the

accuracy of START benefit payments, and finally update our macro risk assessment of CalSTRS' operations. We also plan to perform a network security review. During the SAM 20000 audit fieldwork, we identified areas of risk that require additional audit work that was not included within the initial scope of the SAM 20000 audit. Consequently, we plan to conduct additional audits within the Accounting Division of the I&FS Branch and the Investments Branch.

School District Audits:

Despite operating at a reduced work force, we issued final audit reports for all 9 audits and the Los Angeles USD preliminary survey carried over from the prior fiscal year and 3 final audit reports for audits started in this fiscal year. We also finished the field visit for 3 other audits. Currently, CalSTRS management is reviewing the draft reports for these 3 audits. In addition, we completed follow-up on 6 prior audits (5 follow-ups were budgeted in the work plan).

The reason for the reduced work force was because the hiring freeze became effective before we could fill 3 vacated auditor positions. We obtained an exemption several months later and recently hired 1 staff. We are currently recruiting for 2 staff to completely fill our vacancies.

During the upcoming year, we plan on focusing on the service retirement process once a member applies for retirement until the member's allowance is "finalized." We are completing a preliminary survey to gain an understanding of this process and focus on performing more review of the processes/areas that post the highest risk of CalSTRS not paying a member his or her correct retirement allowance within a timely manner.

At minimum, we plan on reviewing the CalSTRS system calculation of a sample of members' retirement allowances and the reasons for reporting exception lines at the county and district levels. There are approximately 77,000 uncleared exception lines in any given month (13.8% of total reporting lines). At least some of these could affect members' retirement allowances. This process significantly delays CalSTRS from issuing correct retirement allowances. Therefore, we will perform a review at County Offices of Education, Districts, Community Colleges, and internally in order to recommend improvements in the reporting and information dissemination processes.

Compliance Review:

Our audit staff opened and completed 16 case reviews during 2001/2002 and opened 26 additional cases that are close to completion. Compliance cases are similar to audits except that a compliance review covers less members/issues than a full-scope audit. This year we selected many cases by visiting school districts in the vicinity of our audits. We opened compliance cases if our preliminary analysis of the information obtained from the neighboring districts showed a high risk of improper reporting. We can provide greater geographical audit coverage by performing compliance cases.

METHODOLOGY

To estimate the annual staff production hours available for FY 2002/2003 audits and projects, we used CalSTRS' pre-calculated "standard work hours" and estimated that 80 percent of auditors' annual work hours were available for projects. The remaining 20 percent of available hours are designated to non-project administrative tasks. These administrative tasks include training (as required by auditing standards); preparing management reports/Board agenda items; and attending staff or Board meetings. We currently have vacant auditor positions for both the internal and school district teams but plan to fill those positions during the first quarter of the fiscal year. Taking the vacancies into consideration, we estimated that approximately 7,000 hours were available for internal audits and 8,000 hours for school district audits.

The plan at Attachment 1 identifies the audits completed in the prior year along with the planned audits for the current year. Similar to previous years, the plan excludes staff hours for clerical support personnel, audit supervisors, and the audit chief.

INFORMATION TECHNOLOGY

The internal audits staff successfully implemented the automated workpaper module of our Audit Leverage program software. During FY 2002-2003, we plan to implement the remaining modules of the software, which include audit observations/recommendations tracking, automated risk assessment tracking, and various reporting modules. The program continues to help us perform our audit activities much more efficiently. We also further automated our Internal Audits Evaluation Form and worked with the Information Technology Services Division to make it available on CalSTRS' intra-net web page. We plan to continue using available audit tool software such as Audit Command Language (ACL) and Monarch program software when conducting internal audits.

We continue to network with other members of the Association of Public Pension Fund Auditors (APPFA) through bi-annual seminars and weekly communications via e-mail. This alliance continually improves our efficiency and effectiveness by sharing information and obtaining the current "best practices" of other public pension funds.

**OFFICE OF AUDITS
ANNUAL AUDIT PLAN
Fiscal Year 2002-2003**

Office of Audits Objectives <u>Internal Audits</u>	Completed Audits for FY 2001-02	Budgeted Audit Hours for FY 2002-03
EXECUTIVE BRANCH		
START System <ul style="list-style-type: none"> Post Implementation Review (PIER) and Risk Assessment Planning PIER and Risk Assessment (partial PIER objectives rolled over from PY Plan plus R/A of system) 	X	880
DBS Implementation Project <ul style="list-style-type: none"> Participation on implementation team (complete from prior year) 		200
General: CalSTRS Operations <ul style="list-style-type: none"> Perform Risk Assessment (rolled over from PY plan) 		400
INVESTMENTS BRANCH		
<u>Admin/Ext. Relations:</u> <ul style="list-style-type: none"> Soft Dollars Audit Soft Dollars – Follow-Up Audit Investment Accounting Cash Management 	X	80 600 400
<u>Internal Equities:</u> <ul style="list-style-type: none"> Internal Equities Preliminary Review 	X	
<u>Real Estate:</u> <ul style="list-style-type: none"> Real Estate Preliminary Review 	X	

**OFFICE OF AUDITS
 ANNUAL AUDIT PLAN
 Fiscal Year 2002-2003**

Office of Audits Objectives <u>Internal Audits</u>	Completed Audits for FY 2001-02	Budgeted Audit Hours for FY 2002-03
CLIENT BENEFITS & SERVICES BRANCH <u>Disability & Survivor Benefits Division:</u> <ul style="list-style-type: none"> Follow-Up Audit: Death Match Process (rolled over from PY plan) Disability Payments – Preliminary Review Survivor Benefits Payments– Preliminary Review 		 100 600 600
INFORMATION & FINANCIAL SYSTEM BRANCH <u>Accounting Division:</u> <ul style="list-style-type: none"> SAM 20000 Audit (complete PY audit) Accounts Receivable Cash Receipts Financial Reporting <u>Information Technology Services Division:</u> <ul style="list-style-type: none"> Network Security Review (rolled over from PY plan) 		 60 240 240 240 400
ADMINISTRATION BRANCH <u>Administrative Services:</u> <ul style="list-style-type: none"> SAM 20000 Internal Control Review (complete prior year audit) Procurement and Contracting Activities (complete prior year audit) <u>Office of Audits:</u> <ul style="list-style-type: none"> Annual Coordination of CalSTRS financial audit Quarterly Follow-Up on prior audit observations Special Projects – Technical Assistance Audit Leverage Software Implementation 	 X (4) X X	 120 40 400 320 400 360
TOTAL HOURS: 4 Internal & 1 EDP Auditor:		6,680

**OFFICE OF AUDITS
 ANNUAL AUDIT PLAN
 Fiscal Year 2002-2003**

<p style="text-align: center;">Office of Audits Objectives <u>School District Audits</u></p>	<p style="text-align: center;">Completed Audits for FY 2001-02</p>	<p style="text-align: center;">Budgeted Audit Hours (# audits) for FY 2002-03</p>
<p>SCHOOL DISTRICT AUDITS</p> <ul style="list-style-type: none"> • Defined Benefit Program (DBP) Audits • Complete PY DBP Audits in Progress - 6/30/02 • Cash Balance Benefit Program (CBBP) Audits • Control Self-Assessment Visit • Follow-up to Prior Audits • Compliance Cases (including referral to audits) • Complete PY Compliance Cases in Progress - 6/30/02 • Los Angeles USD Audit Survey 	<p style="text-align: center;">10</p> <p style="text-align: center;">2</p> <p style="text-align: center;">cancelled</p> <p style="text-align: center;">5</p> <p style="text-align: center;">1</p>	<p style="text-align: center;">2, 484 (7) 120 (3)</p> <p style="text-align: center;">0</p> <p style="text-align: center;">220 (12)</p> <p style="text-align: center;">1,200 (60) 260 (26)</p>
<p>CLIENT BENEFIT & SERVICES BRANCH / INFORMATION & FINANCIAL SYSTEM BRANCH</p> <p>Service Retirement Div. / Membership Div.:</p> <ul style="list-style-type: none"> • Complete the Exception Lines Correction & Manual Calculation Review – Preliminary Survey • Test of Members’ Service Retirements Allowances • Survey of Exceptions Lines at County/District Level • Review of Other Service Retirement Functions 		<p style="text-align: center;">60</p> <p style="text-align: center;">900</p> <p style="text-align: center;">2,000</p> <p style="text-align: center;">500</p>
<p>TOTAL AUDIT HOURS for 6 School District Auditors:</p>		<p style="text-align: center;">7,744</p>